

STATE CONTROLLER'S OFFICE  
PERSONNEL/PAYROLL SERVICES DIVISION  
P. O. BOX 942850  
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DATE: November 2, 2004

PERSONNEL LETTER #04-012  
(Civil Service Only)

TO: All Agencies in the Uniform State Payroll System

FROM: JOHN R. HARRIGAN, Chief  
Personnel/Payroll Services Division

RE: **SPECIAL LUMP SUM DEFERRAL INSTRUCTIONS**

This letter provides detailed instructions and examples to assist when requesting lump sum deferral to Savings Plus or lump sum deferral to a subsequent calendar year.

Prior to completing the separation PAR, please ensure that the employee has reviewed the "Request to Transfer Lump-Sum Separation Pay Booklet" and has provided you with a completed application, if requesting Savings Plus deductions to be withheld. The booklet is available on the Savings Plus Program's web site at:

<http://sppforu.com>

-select **Employee**

-select **Plan Info and Forms**

-select **Forms and Publications**

-select either the 457 or 401(k) under **Transfer Lump Sum Separation Pay**

Within this booklet are two forms, Lump-Sum Separation Pay Transfer Enrollment Agreement and Request to Transfer Lump-Sum Separation Pay Application (DC3949). The employee must complete form DC3949 to provide you with the necessary information to transfer lump sum pay to Savings Plus. It would also be very helpful if a copy of form DC3949 were attached to the PAR when submitted to SCO. Each situation is very unique and the form DC3949 will provide more clarification to ensure accuracy in these time sensitive payments. Also, refer to SCO's Personnel Letter # 02-025 (Civil Service) for instructions on completing the separation PAR and DPA PML #2002-065 for additional information on the process.

An employee may choose to receive all or some portion of their lump sum in the year of separation.

Note: pay must at least be issued through the November pay period of the year of separation before the election to defer remaining lump sum pay to the subsequent year. If some portion of the lump sum is being deferred until the subsequent year, item 877 on the PAR should be completed. Additionally, employees may request that lump sum pay be transferred to Savings Plus.

SCO will not accept a request that indicates "defer 100% of lump sum to Savings Plus."

Documentation must be specific regarding the deduction amounts to be applied to each pay period of lump sum extension. If the employee is separating mid-month and has an on going Savings Plus deduction, you must determine if the normal deduction will be taken from the regular pay before

determining how much additional lump sum pay can be transferred to Savings Plus. Note: the Savings Plus amounts should not exceed the annual limits for the specific plans.

If the employee is subject to Social Security and/or Medicare, calculations of how much to withhold from the separation pay must include leaving a small net in each payment. This will allow the payroll system to perform all required calculation routines. Specifically, a net of \$50.00 is strongly recommended to allow that all calculation routines perform successfully. Additionally, if the employee has specific types of garnishments, you must also leave sufficient net to allow these garnishment deductions to apply (see Payroll Procedures Manual, Section H 012, Payments Subject to Deductions).

In all cases, the employee must have sufficient net income to cover the amount of the Savings Plus deduction they are requesting to be withheld. The gross of the payment less Social Security and/or Medicare and any garnishment deductions that may be applicable determines net.

### **DOCUMENTATION INSTRUCTIONS FOR THE PAR:**

The following scenario will be used in each of the four examples listed below:

Employee has a total of 99 days of lump sum vacation (item 620) and 43 days 6 hours of lump sum extra (item 625), gross salary of \$5500.00, and an on-going deduction of \$500 per month for both the 457 and the 401 (k) plans.

**Example 1:** employee has a mid-month separation, has sufficient net in regular pay to withhold their ongoing Savings Plus deductions and requests maximum 457 and 401(k) amounts for the 2004 tax year to be withheld and issued in the current tax year.

The employee separates 10 work days into the month with a gross of \$2500. \$2500 less \$191.25 for Social Security and Medicare allows sufficient net to take the on-going deductions. The remaining time in the October pay period allows for a gross of \$3000 less \$229.50 for Social Security and Medicare. Including the October deductions for Savings Plus, the employee will have an annual total of \$5500 withheld for each plan.

### **DOCUMENT REMARKS (ITEM 10) AS FOLLOWS:**

<u>457 Plan</u>	<u>401(k) Plan</u>
\$2725.00 for 10/04	\$0.00 for 10/04
\$4775.00 for 11/04	\$250.00 for 11/04
\$0.00 for 12/04	\$5025.00 for 12/04
\$0.00 for 01/05	\$2225.00 for 01/05

Both the 457 and the 401(k) now have a total of \$13,000 withheld for the year. All remaining pay will be extended without Savings Plus deductions and paid in the current calendar year as requested.

**Example 2:** employee has a mid-month separation, does not have sufficient net in regular pay to withhold their ongoing Savings Plus deductions and requests maximum 457 and 401(k) amounts for the 2004 tax year to be withheld and issued in the current tax year.

The employee separates 2 work days into the month with a gross of \$500. \$500 less \$38.25 for Social Security and Medicare does not allow sufficient net to take the on-going deductions. The remaining time in the October pay period allows for a gross of \$5000 less \$382.50 for Social Security and Medicare. Excluding the October deductions for Savings Plus, the employee will have an annual total of \$5000 withheld for each plan.

DOCUMENT REMARKS (ITEM 10) AS FOLLOWS:

<u>457 Plan</u>	<u>401(k) Plan</u>
\$4567.00 for 10/04	\$0.00 for 10/04
\$3433.00 for 11/04	\$1592.00 for 11/04
\$0.00 for 12/04	\$5025.00 for 12/04
\$0.00 for 01/05	\$1383.00 for 01/05

In both of the above examples, all pay will be reflected on the current tax year W-2, regardless of the pay periods.

The next two examples reflect how the time should be shown on the initial PAR and then the correcting PAR submitted after January 1 of the following calendar year in those cases where the employee wants to defer some portion of their lump sum pay to the next tax year. Initial PAR should reflect 63 days and 6 hours of lump sum in item 620. Item 877 should be completed on the initial PAR. When the correcting PAR is submitted (or keyed), you must show total lump sum time that was due (99 days in item 620 and 43 days 6 hours in item 625).

**Example 3:** employee has a mid-month separation, has sufficient net in regular pay to withhold their ongoing Savings Plus deductions and requests maximum 457 and 401(k) amounts for the 2004 tax year to be withheld and issued in the current tax year.

DOCUMENT CURRENT YEAR PAR REMARKS (ITEM 10) AS FOLLOWS:

<u>457 Plan</u>	<u>401(k) Plan</u>
\$2725.00 for 10/04	\$0.00 for 10/04
\$4775.00 for 11/04	\$250.00 for 11/04
\$0.00 for 12/04	\$5025.00 for 12/04
\$0.00 for 01/05	\$2225.00 for 01/05

DOCUMENT FOLLOWING YEAR PAR REMARKS (ITEM 10) AS FOLLOWS:

<u>457 Plan</u>	<u>401(k) Plan</u>
\$2800.00 for 01/05	\$0.00 for 01/05
\$5025.00 for 02/05	\$0.00 for 02/05
\$5025.00 for 03/05	\$0.00 for 03/05
\$0.00 for 04/05	\$5025.00 for 04/05
\$0.00 for 05/05	\$815.00 for 05/05

It is important that you understand the employee's wishes regarding how they want their lump sum disbursed especially when they designate which plan will receive the deferral. In the example shown above, the employee does not have sufficient lump sum remaining to be paid in the subsequent tax year to allow both plans to achieve the maximum allowable for the year. The employee must clearly instruct you how they want these deductions to be taken.

- **Example 4:** employee has a mid month separation, has sufficient net in regular pay to withhold their ongoing Savings Plus deductions and requests maximum 457 and 401(k) amounts for the 2004 tax year to be withheld and issued in the current tax year. Additionally, the employee requests all remaining lump sum time be deferred to the following calendar year with **no Savings Plus deductions withheld.**

DOCUMENT CURRENT YEAR PAR REMARKS (ITEM 10) AS FOLLOWS:

<u>457 Plan</u>	<u>401(k) Plan</u>
\$2725.00 for 10/04	\$0.00 for 10/04
\$4775.00 for 11/04	\$250.00 for 11/04
\$0.00 for 12/04	\$5025.00 for 12/04
\$0.00 for 01/05	\$2225.00 for 01/05

As there will be no Savings Plus deductions applied to the lump sum issued in the next calendar year, you may decentrally key the correcting PAR after January 1 of the new tax year. The remaining lump sum pay will issue in the new tax year.

In both examples 3 and 4, your employee will receive the current year W-2 in mid January of the subsequent year. The subsequent year W-2 reflecting taxable income and withholdings issued in that year will be mailed to the employee in January of the next year. Remind your employees that it is important to keep you aware of address changes so that their W-2s can be mailed and received with no delay.

Should you have questions regarding the documentation of lump sum with Savings Plus deferral or lump sum deferral to the next tax year, please contact Payroll Telephone Liaison at (916) 323-3081.